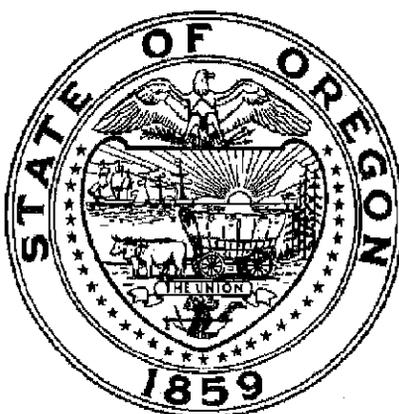


**STATE OF OREGON  
DEPARTMENT OF  
CONSUMER & BUSINESS SERVICES  
INSURANCE DIVISION**



REPORT OF FINANCIAL EXAMINATION

OF

**NORTH PACIFIC INSURANCE COMPANY  
PORTLAND, OREGON**

AS OF

DECEMBER 31, 2013

STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

OF

**NORTH PACIFIC INSURANCE COMPANY  
PORTLAND, OREGON**

**NAIC COMPANY CODE 23892**

AS OF

DECEMBER 31, 2013

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**SALUTATION**

April 6, 2015

Honorable Laura N. Cali, Commissioner  
Department of Consumer and Business Services  
State of Oregon  
350 Winter Street NE  
Salem, Oregon 97301-3883

Dear Commissioner:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**NORTH PACIFIC INSURANCE COMPANY  
One Liberty Centre  
650 NE Holladay Street  
Portland, Oregon 97232**

**NAIC Company Code 23892**

hereinafter referred to as the "Company." The following report is respectfully submitted.

## SCOPE OF EXAMINATION

We have performed a multi-state full-scope coordinated group examination of North Pacific Insurance Company (NPIC), together with its affiliate, Safeco Insurance Company of Oregon (SICO), and the Company's direct parent, Liberty Northwest Insurance Company (LNW) and LNW's other wholly owned insurance affiliate, Oregon Automobile Insurance Company (OAIC). There will be a separate report of financial examination prepared for each company. The last examination of this property and casualty insurer was completed as of December 31, 2012. This is a full-scope examination covering the period January 1, 2013, to December 31, 2013. All accounts and activities of the Company were considered in accordance with the risk-focused examination approach.

We conducted our examination pursuant to ORS 731.300 and in accordance with ORS 731.302(1) which allows the examiners to consider the guidelines and procedures in the NAIC *Financial Condition Examiners Handbook*. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles, annual statement instructions, and Oregon statutes and administrative rules. The examination was performed on a group that pools 100% of its business through the use of a pooling arrangement. A coordinated examination was performed to coordinate efficiencies for those companies with similar systems, management, and/or control processes across legal entities, business units or lines of business within a group.

## COMPANY HISTORY

The Company was incorporated in Oregon on June 26, 1958, and received a Certificate of Authority on July 1, 1958. It was formed as a subsidiary of Oregon Automobile Insurance Company. Its original Certificate of Authority authorized the Company to transact property, casualty (including workers' compensation), marine & transportation, and surety lines.

Ownership of the parent, Oregon Automobile Insurance Company, was held by local interests until 1963, when all outstanding controlling stock was acquired by the American General Insurance Company of Houston, Texas. American General maintained control until November 1965, when it sold its interest to Northwestern National Insurance Company of Milwaukee, Wisconsin. Northwestern National Insurance Company transferred ownership to its parent, NN Corporation, in 1972. NN Corporation was merged into Armco Insurance Group, Inc., in 1980, which held control until acquired by General Accident Insurance Company of America. On July 2, 1998, as a result of the worldwide merger of General Accident, plc, and Commercial Union, plc, a new entity, CGU, plc, became the ultimate controlling parent. On June 1, 2001, the CGU Insurance Group (renamed OneBeacon Insurance Group) was acquired by the White Mountains Insurance Group, Ltd, from GCU, plc. On January 1, 2002, all of the issued and outstanding capital stock of Oregon Automobile Insurance Company was acquired by Liberty Northwest Insurance Corporation (LNW). Thereupon, OAIC immediately paid a dividend to LNW in the form of all issued and outstanding capital stock of the Company, at which point LNW became the immediate parent.

### Capitalization

Under Article III of the Article of Incorporation, the Company is authorized to issue 20,000 shares of common stock of \$260 par value common stock. The Company has issued 11,539

shares to its direct parent, LNW, representing 100% of the shares outstanding. No additional capital was contributed to the Company during the period under examination.

**Dividends to Stockholders and Other Distributions**

The Company has not declared nor paid any dividends or made any distributions to its parent during the period under examination.

**CORPORATE RECORDS**

**Board of Director Minutes**

In general, the review of the 2013 Board meeting minutes indicated that the minutes support the transactions of the Company and the actions taken by its directors and officers. A quorum, as defined by the Company's Bylaws, met at all of the meetings held during the period under review.

**Articles of Incorporation**

There were no changes made to the Articles of Incorporation during the period under examination. The Articles of Incorporation conformed to Oregon statutes.

**Bylaws**

There were no changes made to the Bylaws during the period under examination. The Bylaws conformed to Oregon statutes.

**MANAGEMENT AND CONTROL**

**Board of Directors**

Management and control of the Company is vested in a Board of Directors. Article III, Section 2, of the Company's Bylaws designates that the Board shall be comprised of not less than five members, the exact number thereof to be fixed by resolution. As of December 31, 2013, the Company was governed by an eight member Board of Directors as follows:

<u>Name and Address</u>	<u>Principal Affiliation</u>	<u>Member Since</u>
Kristen M. Bessette Boxford, MA	SVP Chief Actuary Liberty Mutual Insurance Company	2012
James P. Condrin III Dover, MA	Executive President Liberty Mutual Insurance Company	2011
John D. Doyle Southborough, MA	VP and Controller Liberty Mutual Insurance Company	2006
Michael J. Fallon Bedford, MA	Senior Vice President and CFO, Liberty Mutual Insurance Company	2008
Paul K. Koehler West Linn, OR	Regional Vice President Liberty Northwest Insurance Corporation	2012
Dexter R. Legg Portsmouth, NH	Vice President and Corporate Secretary Liberty Mutual Insurance Company	2012
Debra B. Pooley Portland, OR	Vice President, Regional Manager, Business Insurance Liberty Mutual Insurance Company	2013
Kathryn M. Winn Milton, MA	Sr. VP and Corporate Legal Counsel Liberty Mutual Insurance Company	2012

The Company's Board of Directors complied with ORS 732.305.

### Officers

Principal Officers serving at December 31, 2013, were as follows:

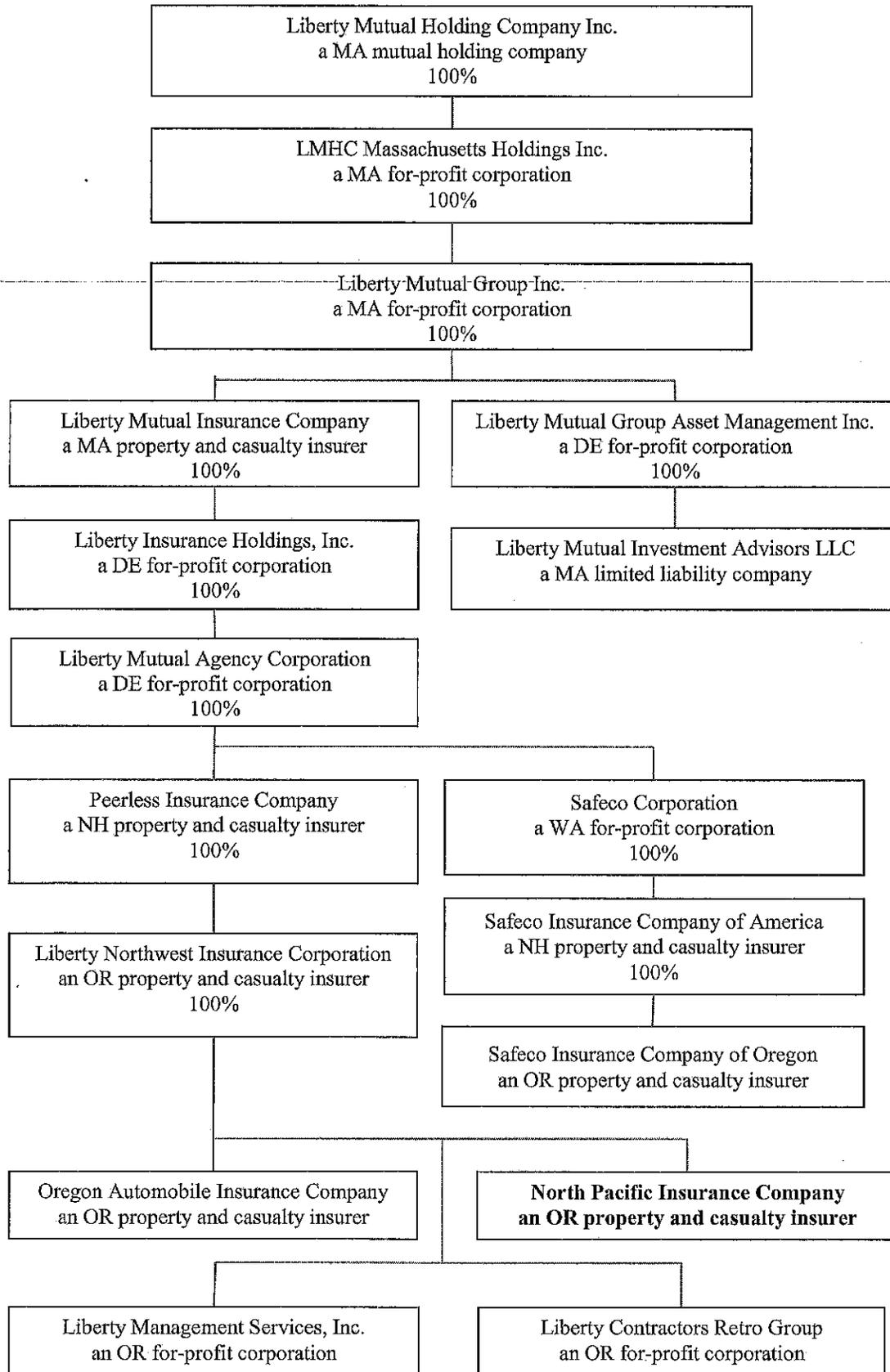
<u>Officer</u>	<u>Office</u>
James P. Condrin, III	President and Chief Executive Officer
Dexter R. Legg	Vice President and Secretary
Laurance H. S. Yahia	Vice President and Treasurer
John D. Doyle	Vice President and Comptroller
Anthony A. Fontanes	Vice President and Chief Investment Officer
Michael J. Fallon	Vice President and CFO
Kathryn M. Winn	Vice President and General Counsel

**Conflict of Interest**

The Company is party to the Liberty Mutual Code of Business Ethics and Conduct, which requires officers, directors, and selected responsible employees to report annually any conflicts of interest or violations of ethical business practices to the Company. From a review of the completed conflict of interest statements, it appeared that the affected personnel performed due diligence in completing the statements. No material conflicts of interest were noted.

**Insurance Company Holding System**

The Company is part of an insurance company holding system in which Liberty Mutual Holding Company Inc. is the ultimate controlling entity. The holding company contained numerous separate entities, but the following condensed organizational chart depicts the relationships relevant to the Company within the holding company system:



A brief description of the entities listed in the above chart is as follows:

Liberty Mutual Group Inc. (LMG) is a Massachusetts holding company formed as part of the reorganization of Liberty Mutual Insurance Company in 2001 under a mutual holding company system. As part of the transaction, it formed Liberty Mutual Holding Company Inc. (LMHC) as a mutual holding company and the ultimate controlling entity. LMHC Massachusetts Holdings Inc. was formed as a stock holding company 100% owned by LMHC, and is the direct parent of LMG. Significant subsidiaries of LMG include:

- Liberty Mutual Insurance Company (LMIC), a Massachusetts domiciled stock property and casualty insurer, was formed in 1912 and is the flagship insurance company of the group, 100% owned by LMG.
- Liberty Mutual Group Asset Management Inc. (LMGAM), a Delaware stock company and an indirect subsidiary of LMG. It was formed for the purpose of making, holding, and administering investments in designated asset sectors for the insurance companies within LMG.
- Liberty Insurance Holdings, Inc. (LIH), a Delaware stock holding company 100% owned by LMIC.
- Liberty Mutual Agency Corporation. (LMAC), a Delaware stock for-profit corporation 100% owned by LIH.
- Safeco Corporation (SC), a Washington for-profit corporation 100% owned by LMAC.
- Safeco Insurance Company of America (SICA), a New Hampshire property and casualty insurance company 100% owned by SC.
- Safeco Insurance Company of Oregon (SICO), an Oregon property and casualty insurance company 100% owned by SICA.
- Peerless Insurance Company (PIC), a New Hampshire stock property and casualty insurance company 100% owned by LMAC. PIC owns 100% of the outstanding shares of the LNW's common stock and is the direct parent.
- Liberty Northwest Insurance Corporation (LNW), an Oregon stock property and casualty insurance company 100% owned by PIC. LNW owns the following for-profit stock subsidiaries, all 100% owned:
  - Oregon Automobile Insurance Company (OAIC), an Oregon-domiciled stock property and casualty insurer.

- Liberty Management Services, Inc. (LMS), an Oregon corporation formed in 1987 as a non-insurance claims servicing company, providing operational support for employers that are self-insured for workers' compensation.
- Liberty Contractors Retro Group, an Oregon corporation formed in 1991 to perform ancillary services for the property and casualty company.

A holding company registration statement was filed by the Company for each year of this examination in accordance with the provisions of ORS 732.552, ORS 732.554, and Oregon Administrative Rule (OAR) 836-027-0020(1).

### **INTERCOMPANY AGREEMENTS**

The Company was party to the following agreements with its parent and affiliates as of December 31, 2013:

#### **Management Services Agreement**

Effective January 1, 2013, the Company and LMIC entered into an agreement whereby LMIC will provide; A) insurance; B) accounting, actuarial, risk management, financial, tax and auditing services; C) purchasing, payroll, human resources and employee benefits; D) marketing and strategic support; E) information technology and support; F) policy administration and production; G) real estate management; H) legal and compliance; I) general administration; J) miscellaneous; K) reinsurance negotiations; and L) maintenance of and access to records. Pursuant to the agreement, the Company shall reimburse LMIC for the reasonable cost of services provided and shall include direct expenses and direct allocable expenses, consistent with the principles of SSAP No. 70. Settlement shall be quarterly and amounts owing shall be made within 45 days.

#### **Cash Management Agreement**

Effective April 1, 2012, the Company entered into an agreement with Liberty Mutual Group Asset Management Inc. (LMGAM) to make, hold, and administer certain positions in short-

term investments. Monthly fees charged will be based on an average of the market value of cash and securities times .00015 plus its proportionate share of all reasonable cost and expenses incurred by the LMGAM in performing its obligations under this agreement, including but not limited to reimbursement of direct commissions, transaction fees, and custodial fees incurred. Exhibit A of the agreement described the permitted assets allowed for purchase. The agreement has no expiration date, but may be terminated immediately upon written notice by the Company or with 30 days written notice by LMGAM.

#### **Investment Management Agreement**

Effective July 1, 2011, the Company entered into an agreement with LMGAM to act as discretionary investment manager of all the invested assets held by the Company, subject to the guidelines, limitations, and objectives set by the Company's Board of Directors. The agreement has no expiration date, but may be terminated immediately upon written notice by the Company or with 180 days written notice by LMGAM. Monthly fees charged will be based on an average of the market value of cash and securities times .00015.

#### **Tax Sharing Agreement**

On January 1, 2002, the company joined Liberty Mutual Holding Company, Inc., (LMHC) in a tax-sharing agreement. Under the agreement, including four amendments, the taxes payable shall be based on the separate tax return liability of each tax reporting segment, adjusted for any carryover, carryback, credit, or other attribute. Estimated tax payments are due no later than the 12th day of April, June, September and December of each tax year.

#### **FIDELITY BOND AND OTHER INSURANCE**

The Company was covered against losses through a fidelity bond with a single loss limit of \$15,000,000 with a single loss limit deductible of \$50,000,000. This coverage exceeded the minimum amount based on the limits recommended by the NAIC. The Company is insured

under a commercial umbrella excess policy with increments of \$25,000,000 up to \$100,000,000 in coverage. Other major insurance coverage in force included company D&O, commercial general liability, financial institution bond, and workers' compensation. All coverage appeared adequate as of December 31, 2013.

### TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was authorized to write property and casualty including workers' compensation, marine and transportation and surety business in Oregon. The Company was also authorized to write business in Alaska, Idaho, Montana, Utah and Washington. During the period under examination, the Company wrote property and casualty business, including a comprehensive set of commercial coverage through independent agents. The Company was part of the Commercial Insurance SBU.

Direct premiums written in 2013 were:

Alaska	\$	0
Idaho		8,127,438
Montana		3,298,770
Oregon		32,563,757
Utah		0
Washington		<u>21,929,069</u>
Total Direct Premium		<u>\$ 65,919,034</u>

At year-end 2013, the Company wrote the following lines of business:

	<u>Direct Premium</u>	<u>Percentage</u>
Fire	\$ 396,588	0.60
Allied Lines	334,919	0.51
Farmowners multiple peril	17,287,416	26.23
Homeowners multiple peril	(3,236)	(0.01)
Commercial multiple peril	21,250,714	32.24
Inland marine	1,737,471	2.64
Earthquake	4,642	0.01
Other liability-occurrence	5,651,992	8.57
Products liability-occurrence	404,597	0.61
Commercial auto liability	4,300,316	21.69
Auto physical damage	4,535,572	6.88
Burglary and theft	<u>18,042</u>	<u>0.03</u>
Total	<u>\$65,919,033</u>	<u>100.00</u>

The Company is part of the Reinsurance Pooling Agreement where 100% of the business is ceded by 53 affiliated insurers to the lead company, Liberty Mutual Insurance Company. Liberty Mutual Insurance Company records 100% of its external assumed and ceded reinsurance activity after recording the assumed affiliate transactions, and then retrocedes to the pool members in accordance with each company's pooling percentage. The Company did not participate in any retrocession, and as a result, it reported no reserves or other policy-related liabilities.

The following is the retrocession reinsurance participants and their respective participation percentages (six companies):

Liberty Mutual Insurance Company	50.00%
Peerless Insurance Company	20.00%
Employers Insurance Company of Wausau	8.00%
The Ohio Casualty Insurance Company	8.00%
Liberty Mutual Fire Insurance Company	8.00%
Safeco Insurance Company of America	6.00%
Total	<u>100.00%</u>

### GROWTH OF THE COMPANY

The growth of the Company since the last financial examination is reflected in the following schedule. The amounts were derived from Company's filed annual statements, except in those years where a report of examination was prepared by the Oregon Insurance Division.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Net Income (Loss)</u>
2009	\$38,648,830	\$31,320,365	\$7,328,465	\$152,993
2010	19,052,601	11,594,642	7,457,959	132,164
2011	14,382,227	6,838,333	7,543,894	81,705
2012*	12,474,616	4,852,329	7,622,287	82,393
2013*	12,142,289	4,476,917	7,665,372	34,085

\*Per examination

All business was 100% ceded to the Liberty Mutual Insurance Company, the lead insurer pursuant to the second amended and restated intercompany reinsurance agreement which resulted in \$0 net underwriting gains for the entire examination period.

## REINSURANCE

### Assumed Business

The Company did not assume any business.

### Ceded Business

Prior to 2013, all of the Company's reinsurance was transacted through a 100% intercompany quota share reinsurance agreement with Peerless Insurance Company (PIC). This agreement was terminated effective December 31, 2012. Business ceded under this agreement was reinsured under the Second Amended and Restated Intercompany Reinsurance Agreement below.

Effective January 1, 2013, the Company entered into a Second Amended and Restated Intercompany Reinsurance Agreement, a 100% quota-share pooling reinsurance agreement with its indirect parent, Liberty Mutual Insurance Company (LMIC), the lead insurer in the LMIC Pool. The agreement calls for LMIC to assume all risks from first dollar, both assumed and direct.

Although the LMIC Pool has various reinsurance agreements with outside reinsurers and with affiliates within the Liberty Mutual Group, the Company is not a party to any other reinsurance agreements on a direct basis.

### **Risk Retention and Transfer**

The Company retains no risk on any one insured. As such, the Company was in compliance with the provisions of ORS 731.504.

### **Insolvency Clause**

~~Each of the reinsurance agreements contained a proper insolvency clause that specified~~ payments would be made to a statutory successor without diminution in the event of insolvency, as required by the provisions of ORS 731.508.

## **ACCOUNTS AND RECORDS**

The Company's records and source documentation supported the amounts presented in the Company's December 31, 2013, annual statement and were maintained in a manner by which the financial condition was readily verifiable pursuant to the provisions of ORS 733.170.

## **STATUTORY DEPOSIT**

The Company had a deposit with the Oregon Insurance Division, Department of Consumer Business Services, pursuant to the provisions of ORS 731.604 and 731.628. The deposit with Oregon consisted of US Treasury Notes with a par value of \$1,210,000. Idaho Insurance Division also held a special deposit of \$100,000 par value.

## **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations in the 2012 report of examination.

## **SUBSEQUENT EVENTS**

The following items were considered significant in operations of the Company subsequent to December 31, 2013.

1. NICO: LMIC has entered into an adverse development cover with National Indemnity Company ("NICO") effective January 1, 2014 which provides coverage

for LMIC's US commercial workers' compensation ("WC") and asbestos and environmental ("A&E") exposures. Specifically, the treaty provides \$6.5 billion of aggregate coverage on carried loss and allocated loss adjustment expense ("ALAE") reserves of \$15.8 billion as of December 31, 2013, with an attachment point of \$12.5 billion on combined WC and A&E reserves. Sub-limits are also in place, consisting of \$3.1 billion on A&E and \$4.5 billion on WC large deductible policy ("LDD") reserves. The cover excludes certain segments of WC business, such as UPS, CSO, and Summit. The treaty specifies that NICO will assume the claim handling responsibility for A&E claims, while the settlement of WC claims remains with LMIC. LMIC is paying NICO total consideration of \$3.05 billion. Based on carried reserves as of December 31, 2013, the NICO cover will provide LMIC with \$3.3 billion of reimbursement, leaving \$3.2 billion of the \$6.5 billion overall limit available to cover adverse development of the carried reserves. This transaction will be recorded as retroactive reinsurance and reported as an Aggregate Write-in for Liabilities on LMIC's statutory balance sheet.

2. Liberty Mutual completed its rollout of a new policy administration and quoting system for commercial insurance (eCLIQ). The project involves transitioning existing policyholders out of LNW to one of four eCLIQ underwriting companies.

### **FINANCIAL STATEMENTS**

The following examination financial statements show the financial condition of North Pacific Insurance Company:

Assets  
Liabilities, Surplus and Other Funds  
Summary of Operations  
Reconciliation of Surplus for the Period Since the last Examination

The financial statements are presented on the basis of statutory accounting practices permitted or prescribed by the Oregon Insurance Division as of December 31, 2013.

**NORTH PACIFIC INSURANCE COMPANY**  
**ASSETS**  
**December 31, 2013**

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Bonds	\$ 7,141,289	\$ -	\$ 7,141,289	1
Cash, cash equivalents and short-term investments	272,681	-	272,681	1
Aggregate write-ins for invested assets	-	-	-	
Subtotal, cash and invested assets	<u>\$ 7,413,970</u>	<u>\$ -</u>	<u>\$ 7,413,970</u>	
Investment income due and accrued	34,189	-	34,189	
Reinsurance				
Amounts recoverable	2,041,110	-	2,041,110	
Funds held or deposited	-	-	-	
Receivable from parent, subsidiaries and affiliates	2,653,020	-	2,653,020	
Aggregate write-ins for other than invested assets	-	-	-	
Total Assets	<u>\$12,142,289</u>	<u>\$ -</u>	<u>\$12,142,289</u>	

**NORTH PACIFIC INSURANCE COMPANY**  
**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2013**

	Balance per Company	Examination Adjustments	Balance per Examination	Notes
Losses	\$ -	\$ -	\$ -	2
<hr/>				
Reinsurance payable on losses and lae				
Loss adjustment expenses	-	-	-	2
Commissions payable	-	-	-	
Other expenses	-	-	-	
Taxes, licenses and fees	-	-	-	
Current federal and foreign income taxes	5,700	-	5,700	
Net deferred tax liability	1,000	-	1,000	
Ceded reinsurance premium payable	4,339,984	-	4,339,984	
Payable to parent, subsidiaries and affiliates	130,233	-	130,233	
Aggregate write-ins for liabilities	<u>-</u>	<u>-</u>	<u>-</u>	
Total Liabilities	<u>\$ 4,476,917</u>	<u>\$ -</u>	<u>\$ 4,476,917</u>	
Common capital stock	\$ 3,000,140	\$ -	\$ 3,000,140	
Gross paid in and contributed surplus	178,204	-	178,204	
Unassigned funds (surplus)	<u>4,487,028</u>	<u>-</u>	<u>4,487,028</u>	
Surplus as regards policyholders	<u>7,665,372</u>	<u>-</u>	<u>7,665,372</u>	
Total Liabilities, Surplus and other Funds	<u>\$12,142,289</u>	<u>\$ -</u>	<u>\$12,142,289</u>	

**NORTH PACIFIC INSURANCE COMPANY**  
**STATEMENT OF INCOME**  
**For the Year Ended December 31, 2013**

<b>Underwriting Income</b>	<b>Balance per Company</b>	<b>Examination Adjustments</b>	<b>Balance per Examination</b>	<b>Notes</b>
Premium earned	\$ -	\$ -	\$ -	
<b>Deductions</b>				
Losses incurred	-	-	-	
Loss adjustment expenses incurred	-	-	-	
Other underwriting expenses incurred	-	-	-	
Aggregate write-ins for underwriting deductions	-	-	-	
Net underwriting gain (loss)	-	-	-	
<b>Investment Income</b>				
Net investment income earned	66,085	-	66,085	
Net realized capital gains (losses)	-	-	-	
Net investment gain (loss)	66,085	-	66,085	
<b>Other Income</b>				
Net gain (loss) from agents' or premium balances charged off	-	-	-	
Finance and service charges not included in premiums	-	-	-	
Aggregate write-ins for miscellaneous income	-	-	-	
<b>Total other income</b>	-	-	-	
Net income before dividends to policyholders and FIT incurred	<u>66,085</u>	<u>-</u>	<u>66,085</u>	
Dividends to policyholders	-	-	-	
Federal income taxes incurred	<u>32,000</u>	<u>-</u>	<u>32,000</u>	
Net income	<u>\$ 34,085</u>	<u>\$ -</u>	<u>\$ 34,085</u>	

**NORTH PACIFIC INSURANCE COMPANY**  
**RECONCILIATION OF SURPLUS FOR THE PERIOD SINCE LAST**  
**EXAMINATION**  
**For the Year Ended December 31,**

	2013	2011
Surplus as regards policyholders, December 31, previous-year	<u>\$7,622,287</u>	<u>\$7,543,894</u>
Net income	34,085	82,393
Change in net unrealized capital gains or (losses)	-	-
Change in net unrealized foreign exchange capital gain or (loss)	-	-
Change in net deferred income tax	9,000	4,000
Change in nonadmitted assets	-	-
Change in provision for reinsurance	-	-
Change in surplus notes	-	-
Cumulative effects of changes in accounting principles	-	-
Capital changes:		
Paid in	-	-
Transferred from surplus (Stock Dividend)	-	-
Transferred to surplus	-	-
Surplus adjustments:		
Paid in	-	-
Transferred to capital (Stock Dividend)	-	-
Transferred from capital	-	-
Net remittances from or (to) Home Office	-	-
Dividends to parent (cash)	-	-
Change in treasury stock	-	-
Examination adjustments	-	-
Aggregate write-ins for gains and losses in surplus	-	-
Change in surplus as regards policyholders for the year	<u>43,085</u>	<u>78,393</u>
Surplus as regards policyholders, December 31, current year	<u>\$7,665,372</u>	<u>\$7,622,287</u>

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 - Investments

All of the Company's long-term bond investments were in US Treasury obligations. Cash and short-term deposits consisted of short-term money market funds. A comparison of the investments over the past five years is as follows:

<u>Year</u>	<u>A</u> <u>Bonds</u>	<u>B</u> <u>Cash and</u> <u>Short Term</u>	<u>Ratio A/</u> <u>Total Assets</u>	<u>Ratio B/</u> <u>Total Assets</u>
2009	\$6,420,930	\$5,411,666	16.6%	14.0%
2010	5,444,160	1,463,545	28.6%	7.7%
2011	7,503,118	132,055	52.2%	0.9%
2012	7,341,607	236,894	58.8%	1.9%
2013	7,141,289	272,681	58.8%	2.2%

The Board of Directors approved the investment transactions pursuant to ORS 733.740. As of December 31, 2013, sufficient invested assets were invested in amply secured obligations of the United States, as required by ORS 733.580.

The Company entered into a global custody agreement with JP Morgan Chase dated January 10, 2002. An Oregon rider was executed on January 20, 2009, to comply with the protections required under OAR 836-027-0200.

The Company participates in a Securities Lending Program to generate additional income. Borrowers of those securities provide collateral equal to or in excess of 102% of the market value of the loaned securities. At December 31, 2013, the total fair value of securities on loan was \$3,002,350 with corresponding collateral value of \$3,081,402 of which \$0 represents cash collateral.

### Note 2 – Actuarial Reserves

As described earlier in this report, the Company participated in an intercompany reinsurance pooling arrangement, whereby 100% of the direct business was ceded to the pool, with no business retroceded back to the Company. As a result, all loss reserves, LAE reserves, premiums and considerations, unearned premium reserves, and any other amount to be actuarially determined would be reported in the statements of the participating insurers.

David F. Dahl, FCAS, MAAA, Oregon Insurance Division property and casualty actuary, reviewed the work performed by the lead state, Massachusetts as well as the opining actuary over loss reserves and loss adjustment expenses reserves. Mark Littman, FCAS, MAAA, of PwC prepared the financial examination report for the Massachusetts DOI and Stephanie A. Neyenhouse, FCAS, MAAA, of Liberty Mutual prepared the company's actuarial report and opinion. The financial examination report indicates the Liberty Mutual pool has a deficiency of \$372 million. The actuarial report shows a deficiency of \$89 million. Both amounts are less than 1% of carried reserves of \$34.6 billion and statutory surplus of \$15.1 billion and neither is material.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

The examiner made no changes to surplus as a result of this examination and there were no recommendations.

## CONCLUSION

During the period covered by this examination, the surplus of the Company has increased from \$7,622,287, as presented in the December 31, 2012, report of examination, to \$7,665,372, as shown in this report of examination. There were no adjustments made to the financial statements as a result of this examination. The comparative assets and liabilities are shown below:

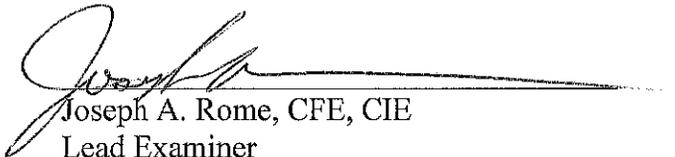
	<u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>Change</u>
Assets	\$12,142,289	\$12,474,616	\$(334,327)
Liabilities	<u>4,476,917</u>	<u>4,852,329</u>	<u>(375,412)</u>
Surplus	<u>\$ 7,665,372</u>	<u>\$ 7,622,287</u>	<u>\$ 43,085</u>

**ACKNOWLEDGMENT**

The cooperation and assistance extended by the officers and employees of the Company during the examination process are gratefully acknowledged.

In addition to the undersigned, David F. Dahl, FCAS, MAAA, property and casualty actuary, and Heather L. DeShores, MPA, MAFM, insurance examiner, for the State of Oregon, Department of Consumer and Business Services, Insurance Division, participated in the examination.

Respectfully submitted,

  
Joseph A. Rome, CFE, CIE  
Lead Examiner  
Department of Consumer and Business Services  
State of Oregon

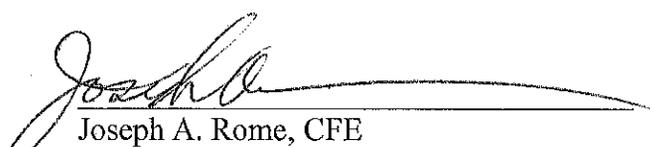
**AFFIDAVIT**

STATE OF OREGON            )  
  )    ss  
County of Marion            )

Joseph A. Rome, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of North Pacific Insurance Company, Portland, Oregon.
2. The Insurance Division of the Department of Consumer and Business Services of the state of Oregon is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report. The examination of North Pacific Insurance Company was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

  
\_\_\_\_\_  
Joseph A. Rome, CFE  
Supervising Financial Examiner  
Department of Consumer and Business Services  
State of Oregon

Subscribed and sworn to me this 18 day of May, 2015.

  
\_\_\_\_\_  
Notary Public for the State of Oregon

My Commission Expires: 3/22/2017

